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FACT SHEET

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WAYS TO IMPROVE GRAIN SORGHUM PRICES

John J. Seibert*

Since Texas produces 2 of every 5 bushels of grain sorghum in the United States, its price is important to Texas growers. More land is devoted to grain sorghum production in Texas than any other field crop!

More than 300 million bushels of grain sorghum in recent years have been offered by Texas growers to domestic and export markets. More than two-thirds of this production is available from the Panhandle, South Plains and Rolling Plains, figure 1. About one-fourth of Texas' production originates in southern areas of the state.

Grain Sorghum Prices

Cash prices received by Texas producers were above the price support loan level in each year the Feed Grains Program was in effect—except 1961, 1962 and for short periods in 1963 and 1968, figures 2 and 3. Reduced stocks accompanied by growing demands aided the price rise experienced by U. S. and Texas growers from 1961 through 1964.

Increased consumption (domestic and export) and production in 1965 netted lower cash prices to producers. Prices began to increase in early 1966 and continued through mid-1967. Reduced domestic and export consumption accompanied by increased production resulted in a price decline through August, 1968.

Many factors affect the price received by Texas grain sorghum producers. Provisions of the Feed Grains Program, increased demands by an expanding livestock and poultry industry and demands by foreign buyers are major price influences.

Feed Grains Program

Annual Texas production between 1961-1968 fluctuated directly with the Feed Grains Program diversion and price support incentives.

Along with the $1.93 per hundredweight price support rate for 1961 and 1962, strong incentives through diverted acreage provisions reduced total production. A lower price support loan rate in 1963 and 1965 with reduced diverted acreage incentives probably accounted for the higher production in these years. The reduced 1964 production can be attributed directly to abnormal dry weather in the heavy producing areas of Texas, along with higher price support loan rates on 50 percent of the base acreage to participating growers. Price support payments, combined with price support loan rates, encouraged producers to increase production on their permitted acreage in 1966 through 1968. Reduced diverted acreage incentives also contributed to this expansion.

The moving 3-year production average used to determine projected yields on which payments were based also was an encouragement to increase per acre yields. Proved, adopted technology contributing to increased production also influenced program participation.

Livestock and Poultry Expansion

Expanded Texas livestock feeding is consuming greater quantities of Texas grain sorghum. This rapidly growing market, however, is utilizing less than 50 percent of total Texas supplies. Steady growth of the East Texas poultry industry has not yet boosted consumption of grain sorghum.

Even though grain-consuming industries are rapidly developing in and around Texas, stocks are available for other states and export markets.

Exports

All grain sorghum growers enjoyed increased consumption in both domestic and foreign markets from 1961 through 1966. Reduced imports by Japan and the European Economic Community countries, along with reduced domestic consumption, have contributed a slight build-up in 1968 carryover stocks.

*Extension grain marketing specialist, Texas A&M University.

Texas A&M University • Agricultural Extension Service • John E. Hutchison, Director • College Station

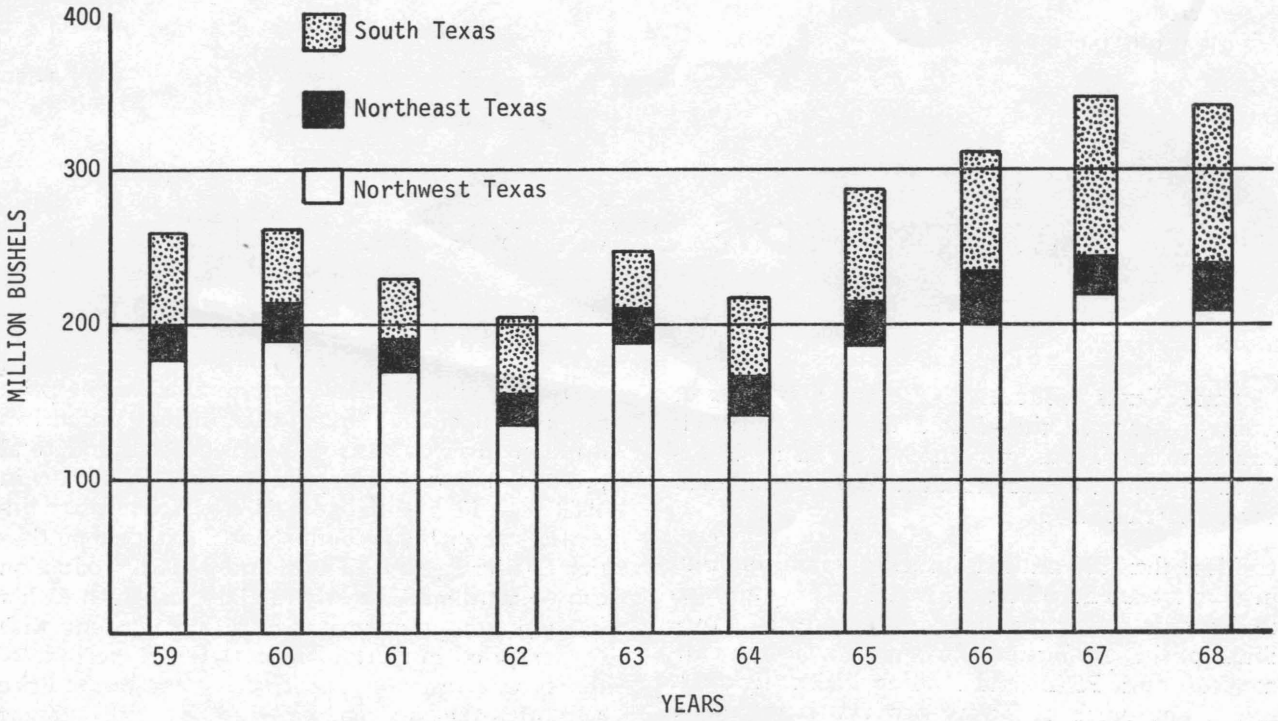


Fig. 1. Texas grain sorghum production by areas, 1959-1968.

Increased foreign feed grain production and "protectionistic" trade policies are factors contributing to this build-up.

Methods to Stabilize Price

Shifts in Texas production and demand for grain sorghum have resulted in strong price levels in some areas and weaker price levels in others. For example, frequent price levels at harvest in South Texas during 1968 harvest were approximately $1.50 per hundredweight, while, during peak harvest in the Panhandle-South Plains, cash prices did not fall below $1.65 per hundredweight in the same year.

Seasonal price variations are causing growers to re-examine their traditional cash sales at harvest,

Table 1. Texas Grain Sorghum Price Fluctuations 1961-1968

	Low		High		Price
Year	Month	Price	Month	Price	fluctuation
1961	Jan.	$1.55	July	$1.74	$ .19
1962	Oct.	1.65	May	1.76	.11
1963	Jan.	1.71	Dec.	1.82	.11
1964	July	1.79	Dec.	1.93	.14
1965	Oct.-Nov.	1.71	May	2.00	.29
1966	Oct.	1.68	Aug.	1.83	.15
1967	Dec.	1.70	July	2.09	.39
1968	Sept.	1.55	Mar.	1.90	.35

SOURCE: Data supplied by Texas Crop and Livestock Reporting Service, SRS, USDA, Austin, Texas

Table 1. Producers may wish to consider forward contracting, storing production in on-farm or commercial facilities for future cash sales, deliver grain sorghum to a commercial elevator and sell on a delayed price or the commodity futures market.

Forward Contracting

Forward contracting to feedlots, country elevators or other processors can be used to establish an acceptable price before harvest. In addition to price, forward contracts provide for time and place of delivery, quality and quantity to be delivered. A scheduled discount for delivered grain lower than specified contract quality can be included. Once the contract is consumated, the grower is expected to meet its terms.

On-farm or Commercial Storage

Higher than peak harvest prices are possible by holding grain rather than selling at harvest. Local price trends and prospects should be examined, along with storage, shrinkage and handling costs. A comparison of these two factors will help determine if any increased profits can be reaped.

Commercial Elevator Delivery

Storage space and costs can be arranged before harvest. A sliding scale on local price increases

and storage costs can help determine when it is most profitable to sell.

The grower maintains control of sales and when to sell. The elevator is assured of storage cost recovery. As in on-farm or commercial storage, the producer compares local price trends and prospects with storage, shrinkage and handling costs to determine if any increased profits are available.

Commodity Futures Market

Selling futures contracts equal to production

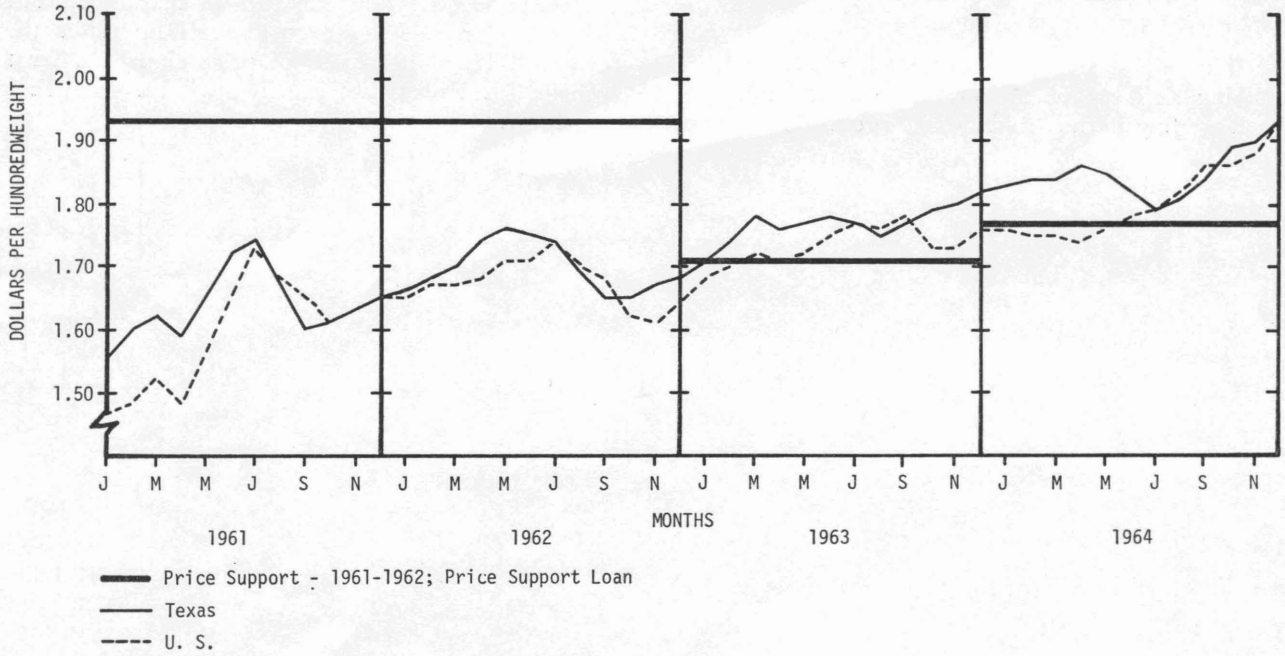


Fig. 2. Grain sorghum average monthly prices received by Texas and U.S. producers, 1961-1964.

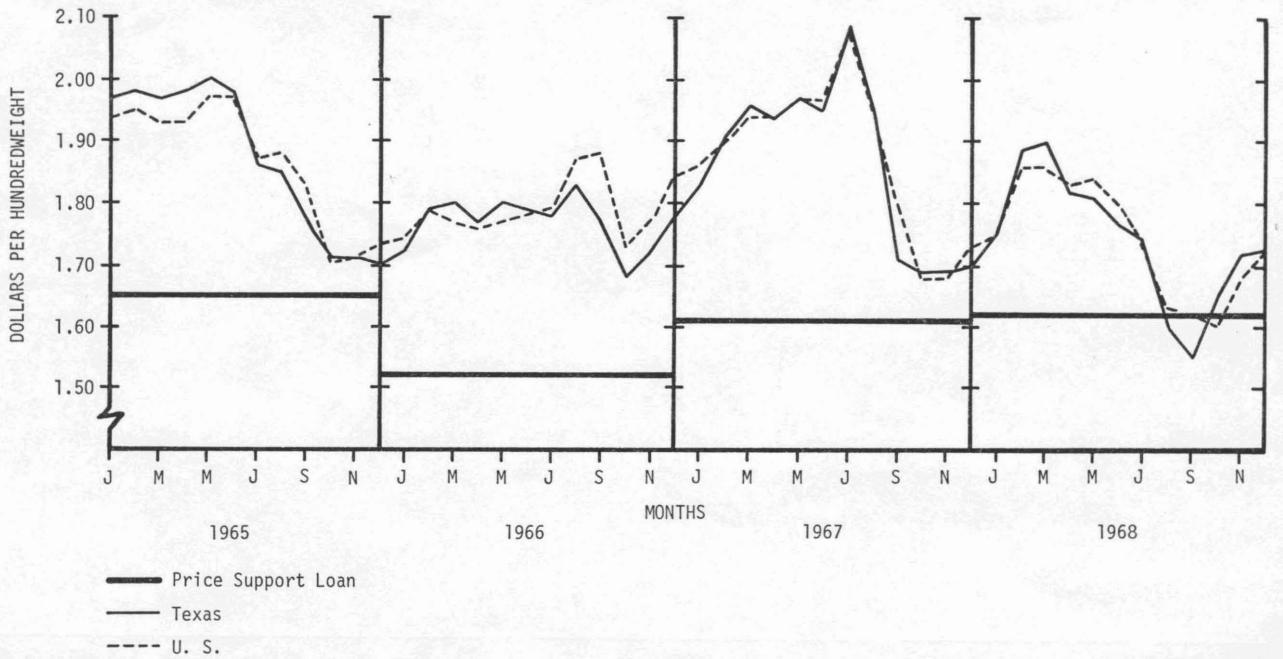
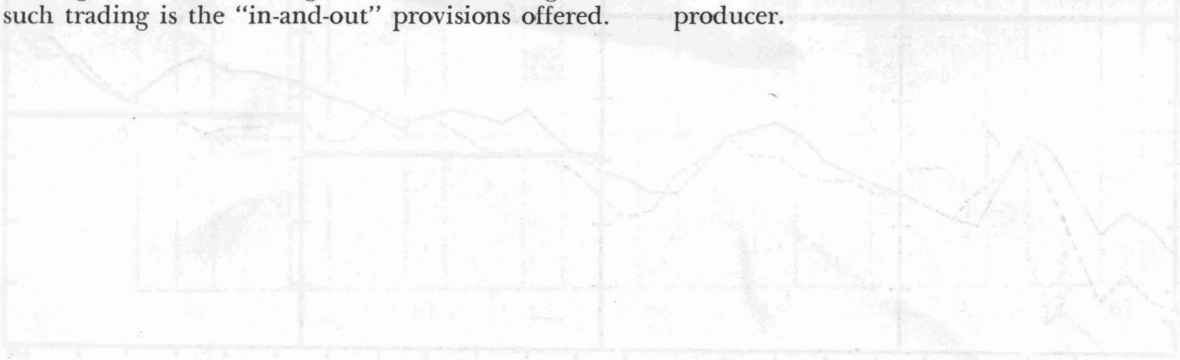


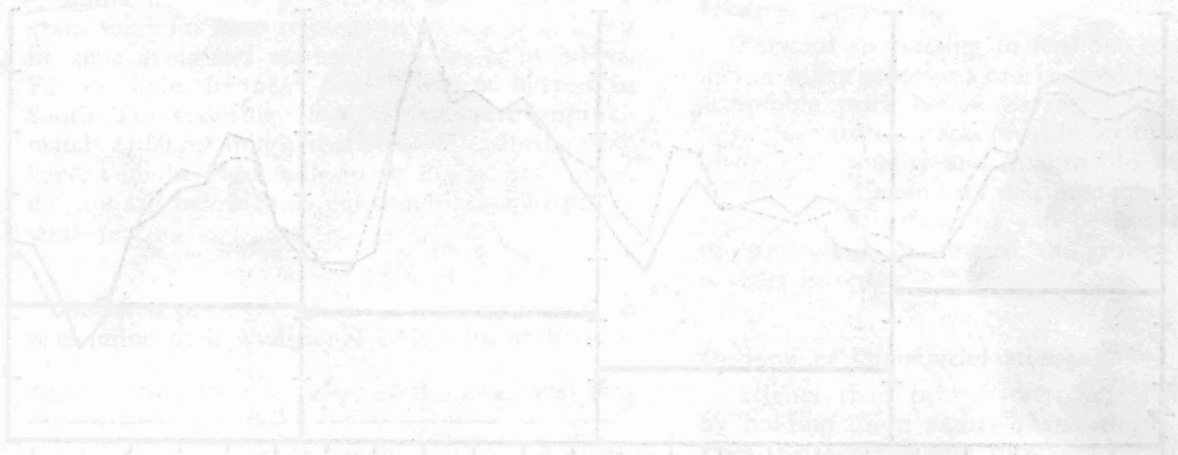
Fig. 3. Grain sorghum average monthly prices received by Texas and U.S. producers, 1965-1968.

before harvest—hedging—shifts some risk of price change to others. A satisfactory price at time of futures contract sale defends a price at harvest. A small margin is required to negotiate the sale. At harvest, an offsetting futures contract can be purchased and grain sorghum sold for cash at the local elevator. Any gain from the futures transaction can be added to the cash grain price, and losses deducted from the cash grain price.

The sale of a futures contract is rarely used for making delivery of the grain. An advantage of such trading is the "in-and-out" provisions offered. Unlike the forward contract, the futures contract marketing tool can be sold and bought. Such liquidity of contract sales normally is not available through forward contracting.

Currently corn and grain sorghum freely substitute for each other in feeding rations. Thus their seasonal price movements influence each other. A producer can deal in the futures market on one of these commodities even though he raises the other. The reduced risk of price changes offered by the futures market is still available to such a producer.





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